



private client | furnished holiday lettings

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The furnished holiday lettings rules will be abolished completely from April 2010 onwards. All properties will then be treated in the same way, with losses carried forward against future rental profits. This signals the end of the favourable tax treatment currently available which includes the right to claim capital allowances, set off losses against other income and capital gains tax reliefs (such as Entrepreneurs' relief, rollover relief and holdover relief).

The 2009 Budget announced that the furnished holiday lettings rules have been expanded to include properties in the European Economic Area (the EU plus Norway, Iceland and Liechtenstein) and not just properties in the UK. As a result it may now be possible to claim tax relief for properties such as ski chalets let for the ski season. To qualify, a property must be available for letting for more than 140 days per year, actually let for more than 70 days and not let to the same person for more than 31 days. Personal use of the holiday letting is allowed, but claims for expenses will be restricted to the business period only and own use will not count as a day the property was available for letting.

In order to maximise the furnished holiday letting relief available it is recommended to ensure that any expenditure required for the upkeep of the property is incurred prior to 6 April 2010. If the expenditure creates a loss this can then be relieved against general income for the year rather than carry forward the loss against future profits.

transitional rules

As capital allowances are not available for expenditure on plant and machinery in a house that is let the expenditure incurred after 5 April 2010 will not qualify for capital allowances. HMRC have stated that capital allowances can still be claimed on the remaining pool. Furnished holiday lettings were excluded from claiming the wear and tear allowance (see below) which is available to normal lettings. From April 2010 it is possible to claim the wear and tear allowance and capital allowances for furnished holiday lettings.

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After 5 April 2010 furnished holiday lettings will cease to be a trading activity for the purposes of Entrepreneurs' relief and will cease to qualify from that date. If however the property is sold within three years and all the other qualifying conditions are met then the relief will still be available. Entrepreneurs' relief is capped at a lifetime limit of £1million and reduces a qualifying business asset gain by 4/9ths.

allowable rental property expenditure

It is not possible to detail every form of allowable property expenditure, therefore the list below details the most common allowable expenses if they are borne by the landlord:

- building and contents insurance
- business rates, council tax, ground rents
- mortgage interest (capital repayments are not allowable)
- accountancy costs in relation to the preparation of rental property accounts
- repairs* and maintenance
- wear and tear allowance is available on residential property that is let furnished (but not where the letting is a furnished holiday letting). The most common calculation of this is 10% of the net rent (gross rents minus council tax and water rates etc)

*Repairs (revenue expenditure) to a property are allowable but improvements (capital expenditure) are not. The distinction between revenue and capital expenditure is a grey area and therefore any expenditure should be reviewed, before making a claim, to ascertain into which of the two categories it falls.

about haysmacintyre

haysmacintyre, Chartered Accountants and tax advisers, comprises 24 partners and 160 staff based in Holborn, London. It provides high quality auditing and assurance, business and personal taxation, corporate finance, financial planning and other business support services.

Around 50% of the firm's business is within the corporate sector – small and medium sized enterprises, many of which are in the property, media and entertainment, technology, sports and business services sectors. The firm acts for a number of listed companies and assists new companies raise initial funds on the capital markets and through private equity. 35% of the firm's business is for charitable and not for profit organisations and the remainder is for professional practices and private individuals – whether senior executives, entrepreneurs or those with significant land or wealth at home or overseas.

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